

**Supporting Statement for
30 CFR Part 210—Forms and Reports and Part 206—Product Valuation
(Form MMS-2014, Report of Sales and Royalty Remittance)
(OMB Control Number 1010-0140)
(Expiration Date: August 31, 2003)**

A. Justification

1. What circumstances make this collection of information necessary?

The Secretary of the U.S. Department of the Interior (DOI) (Secretary) is responsible for collecting royalties from lessees who produce minerals from leased Federal and Indian lands. The Secretary is required by various laws to manage mineral resources production on Federal and Indian lands, collect the royalties due, and distribute the funds in accordance with those laws. The Secretary also has an Indian trust responsibility to manage Indian lands and seek advice and information from Indian beneficiaries. The Minerals Management Service (MMS) performs the royalty management functions and assists the Secretary in carrying out DOI's Indian trust responsibility.

When a company or an individual enters into a lease to explore, develop, produce, and dispose of minerals from Federal or Indian lands, that company or individual agrees to pay the lessor a share (royalty) of the value received from production from the leased lands. The lease creates a business relationship between the lessor and the lessee. The lessee is required to report various kinds of information to the lessor relative to the disposition of the leased minerals. Such information is similar to data reported to private and public mineral interest owners and is generally available within the records of the lessee or others involved in developing, transporting, processing, purchasing, or selling of such minerals. The information collected includes data necessary to assure that the royalties are paid appropriately.

The Federal Oil and Gas Royalty Management Act (FOGRMA) of 1982, 30 U.S.C. 1701 et seq., states in Section 101(a) that the Secretary “. . . shall establish a comprehensive inspection, collection, and fiscal and production accounting and auditing system to provide the capability to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed, and to collect and account for such amounts in a timely manner.” The persons or entities described at 30 U.S.C. 1713 are required to make reports and provide reasonable information as defined by the Secretary.

Applicable citations include 30 U.S.C. 189 pertaining to Public Lands, 30 U.S.C. 359 pertaining to Acquired Lands, 25 U.S.C. 396d pertaining to Indian Lands, 43 U.S.C. 1334 pertaining to Outer Continental Shelf Lands, and revised geothermal regulations at 30 CFR 210.354. Royalty management rules are codified at 30 CFR Subchapter A, Part 201 et seq. Reporting requirements are at 30 CFR 210.52 and 210.53. See Attachment 1 for copies of pertinent laws and regulations.

2. How, by whom, and for what purpose will the information be used?

When a company or individual enters into a contract to develop, produce, and dispose of minerals from Federal or Indian lands, that company or individual agrees to pay the United States, Indian tribe, or allottee a share (royalty) each month of the full value received for the minerals taken from leased lands.

The Report of Sales and Royalty Remittance, Form MMS-2014 (Attachment 2), is the only document used for reporting oil and gas royalties, certain rents, and other lease-related transactions to MMS (e.g., transportation and processing allowances, lease adjustments, and quality and location differentials).

The MMS's Minerals Revenue Management (MRM) relies on data reported by payors on Form MMS-2014 for the majority of our business processes. In addition to accounting for royalties reported by payors, our system (using data from Form MMS-2014) performs numerous other functions:

- Monthly distribution of mineral revenues to State, Indian, and U.S. Treasury accounts,
- Explanation of Payments (EOP) reporting as required by FOGPMA,
- Royalty accounting and statistical information to States, Indians, and others who have a need for such information, and
- Identifying under-reporting and nonreporting so MMS can promptly collect revenues. Sales and royalty information is compared with production data. This comparison provides MMS with valuable cross-check capability for verification of production with reported sales.

If MRM did not collect the information provided by Form MMS-2014, it would be impossible to ensure that MMS is collecting and disbursing the full value of royalties received from production of leased lands. Collection of royalties directly impacts the amount of funds made available to the United States Treasury, to State governments, and to Indian tribes and allottees.

Addressing Terms of Clearance under OMB Notice of Action, August 1, 2000:

Terms of Clearance

Use of API Well Number data element on form 2014 is restricted to Indian lands and offshore leases under well-based royalty relief. Any expansion of the use of this data element is subject to approval of a new information collection request with full public notice and comment. By October 2002, MMS will either (a) revise this information collection package to allow for net adjustment reporting, or (b) provide a report to OIRA explaining their

progress on this issue along with a schedule for implementing this revision.

MMS Response

There has been no expansion of the use of the API Well Number data element, nor is any expansion of use anticipated.

Since the comments indicated industry would continue to reverse the original line and report a new replacement line, MMS deferred implementation of net adjustments. In addition, net reporting would greatly complicate the FOGARMA requirement to provide explanation of payments (EOP) data to royalty recipients. Increased costs would also have been incurred to reprogram the MMS system to accept net reporting. As a result, net reporting was not implemented, and the anticipated cost savings and decrease in the number of lines reported annually did not occur on October 2001. Plans to implement net reporting have been dropped.

3. Does the collection of information involve the use of information technology, does it reduce the burden, and to what extent?

We published a final rule on July 15, 1999 (30 CFR 210.20), which requires most reporters to submit royalty and selected production reports electronically. It includes several exceptions designed to minimize the impact that electronic reporting might have on small businesses. The vast majority of Form MMS-2014 lines, approximately 99 percent, are already reported to MMS electronically. MMS has contracted with an electronic commerce vendor who assists reporters in converting to one of our electronic reporting options. Once converted, the availability of extensive online help text minimizes the reporting burden.

It is advantageous to both payors and MMS to report by electronic media. Companies maintain nearly all information required for sales and royalty reporting in their computer data base. Fewer errors are made using electronic reporting, and errors that do occur when reporting electronically are easier to trace and correct. It requires less time for a company to draw data from its own files, enter a line of data, and generate the electronic report than to manually complete a line of reporting. Certain Form MMS-2014 data fields are the same on every report, and payors can create reporting templates of the static information, which can be used every month.

Companies reporting electronically are not required to complete a hard copy Form MMS-2014.

The MMS furnishes a copy of the *Minerals Revenue Reporter Handbook* to every company or individual lessee who is required to submit Form MMS-2014. The handbook provides detailed reporting instructions including the various transaction codes necessary for system processing.

4. Is the information duplicated by any other Federal agency, and can similar information be used or modified for this collection?

The information necessary to accomplish the royalty management functions required by

FOGRMA is not collected by any other governmental agency. The information is readily available only in the files of the lessees and operators who are required to fill out Form MMS-2014.

5. What is the agency doing to minimize the burden on small businesses or other small entities?

Small businesses or other small entities are among potential respondents. We have analyzed Form MMS-2014 requirements to ensure that the information requested is the minimum necessary and places the least possible burden on respondents. To minimize the burden of reporting for small businesses, we routinely conduct training sessions to assist payors in completing Form MMS-2014. In addition, we provide toll-free telephone assistance when payors have questions related to our handbook instructions and form filing requirements. Extensive online help text is available to assist in reporting electronically. Electronic reporters also have the capability of creating templates of information that is static from month to month, simplifying the reporting effort.

6. What are the consequences to the Federal program or policy if the information is not collected or is collected less frequently; and are there technical or legal obstacles to reducing the burden?

MMS is required by law to collect and disburse funds. The information on Form MMS-2014 identifies the revenue recipient, which enables MMS to make proper disbursement of funds. It also provides all the additional data needed for the associated EOP. The information on Form MMS-2014 is collected monthly for the majority of leases. If Form MMS-2014 information were not collected monthly, MMS would not be able to meet these requirements nor comply with FOGRMA. It would be impossible to ensure that the full value of royalties is received. The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA), Public Law 104-185, as corrected by Public Law 104-200, authorizes the Secretary or the delegated State on a case-by-case basis to provide accounting, reporting, and auditing relief for specific marginal properties. If authorized, Form MMS-2014 can be submitted on less than a monthly basis. Collection of royalties directly impacts the amount of funds made available to the U.S. Treasury, State governments, and Indian tribes and allottees.

7. Are there any special circumstances that require exceptions to 5 CFR 1320.5(d)(2) requiring respondents to (i) report more often than quarterly, (ii) prepare written responses in fewer than 30 days after receipt, (iii) submit more than an original and two copies of any document, or (iv) retain records for more than 3 years?

This collection of information is consistent with the provisions at 5 CFR 1320.5(d)(2) with the exceptions of (i) and (iv) above.

- Reporting more often than quarterly—FOGRMA requires that funds derived from Federal and Indian leases be distributed on a monthly basis. Form MMS-2014 is required monthly by various paragraphs at 30 CFR Part 210. Failure to collect

information monthly would preclude collection and disbursement of the amounts actually due and payable.

- Records retention for more than 3 years—In accordance with 30 U.S.C. 1713(b), Indian, Federal and Outer Continental Shelf oil and gas records must be maintained for 6 years after the records are generated unless the Secretary notifies the record holder that such records must be maintained for a longer period due to an ongoing audit or investigation.

There are no special circumstances with respect to 5 CFR 1320.5(d)(2)(v) through (viii), as the collection is not a statistical survey and does not use statistical data classification; nor does it include a pledge of confidentiality not supported by statute or regulation or require proprietary, trade secret, or other confidential information not protected by agency procedures.

8. What efforts did the agency make to consult with the public and a representative sample of respondents?

As required in 5 CFR 1320.8(d), MMS published a 60-day review and comment notice in the *Federal Register* on May 13, 2003 (68 FR 25622) (Attachment 3). We received no comments in response to this notice.

9. Will payment or gifts be provided to respondents?

No payments or gifts will be provided to the respondents.

10. What assurance of confidentiality is provided to respondents?

Commercial or financial information provided to MMS relative to minerals removed from Federal and Indian leases may be proprietary. Trade secrets, proprietary and other information are protected in accordance with standards established by FOGRMA, as amended (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)), and Department regulations (43 CFR 2). The Indian Mineral Development Act (IMDA) of 1982 (25 U.S.C. 2103) provides that all information related to any Indian minerals agreement covered by the Act in the possession of the Department shall be held as privileged proprietary information. Storage of proprietary information and access to it is controlled by strict security measures.

11. Does the information collected include any questions of a sensitive nature?

None of the information requested is considered sensitive.

12. What is the estimated respondent reporting and recordkeeping "hour" burden?

The annual reporting burden is 125,856 hours. We expect approximately 2,484,000 responses from 1,600 payors to submit the required information. The burden estimates include the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Using an average cost of

\$50 per hour, the total cost to respondents is \$6,292,800. There are no additional recordkeeping costs.

Respondent Annual Burden Hour Chart

30 CFR Section Parts 210 and 206	Reporting Requirement	Burden Hours per Response	Annual Number of Responses	Annual Burden Hours
210.20(a); 210.21(c)(1); 210.50; and 210.52(a)(1), (2), (b), (c), and (d); 210.354	You must submit Form MMS-2014 . . . to MMS electronically. . . You must submit an electronic sample of your report for MMS approval . . . Records may be maintained in microfilm, microfiche, or other recorded media . . . You must submit a completed Form MMS-2014 (Report of Sales and Royalty Remittance) to MMS with: (1) All royalty payments; and, (2) Rents on nonproducing leases, . . . When you submit Form MMS-2014 data electronically, you must not submit the form itself, Completed Forms MMS-2014 for royalty payments are due by the end of the month following the production month; . . . completed Forms MMS-2014 for rental payments are due no later than the anniversary date of the lease. . . A completed Report of Sales and Royalty Remittance (Form MMS-2014) must be submitted each month once sales or utilization of production occur, . . . This report is due on or before the last day of the month following the month in which production was sold or utilized,1167 (Manual 1 %)	24,840	2,898
		.05 (Electronic 99%)	2,459,160	122,958
206.55(c)(4)	Transportation allowances must be reported as a separate line item on Form MMS-2014. . .	Burden hours included in hours above.		
206.55(e)(2)	For lessees transporting production from Indian leases, the lessee must submit a corrected Form MMS-2014 to reflect actual costs, . . .	Burden hours included in hours above.		
206.110(c)(1)	You may use your proposed procedure to calculate a transportation allowance until MMS accepts or rejects your cost allocation. If MMS rejects your cost allocation, you must amend your Form MMS-2014 for the months that you used the rejected method . . .	Burden hours included in hours above.		
206.114 and 206.115(a)	You or your affiliate must use a separate entry on Form MMS-2014 to notify MMS of an allowance based on transportation costs you or your affiliate incur.	Burden hours included in hours above.		
206.157(a)(1)(i);	Arm's-length transportation contracts and	Burden hours included in hours above.		

30 CFR Section Parts 210 and 206	Reporting Requirement	Burden Hours per Response	Annual Number of Responses	Annual Burden Hours
206.157(b)(1)	non-arm's-length or no contract. The lessee must claim a transportation allowance by reporting it as a separate line entry on the Form MMS-2014.			
206.157(c)(1)(i) and (c)(2)(i); 206.159(c)(1)(i) and (c)(2)(i)	Arm's-length contracts and non-arm's-length or no contract. The lessee must notify MMS of an allowance based on incurred costs by using a separate line entry on the Form MMS-2014.	Burden hours included in hours above.		
206.157(e)(2)	For lessees transporting production from onshore Federal leases, the lessee must submit a corrected Form MMS-2014 to reflect actual costs, . . .	Burden hours included in hours above.		
206.157(e)(3)	For lessees transporting gas production from leases on the OCS, . . . the lessee must submit a corrected Form MMS-2014 to reflect actual costs, . . .	Burden hours included in hours above.		
206.157(f)(1); 206.178(f)(1)	You must modify the Form MMS-2014 by the amount received or credited for the affected reporting period.	Burden hours included in hours above.		
206.159(a)(1)(i) and (b)(1)	Arm's-length processing contracts and non-arm's-length or no contract. The lessee must claim a processing allowance by reporting it as a separate line entry on the Form MMS-2014.	Burden hours included in hours above.		
206.159(e)(3)	For lessees processing pas production from leases on the OCS, . . . the lessee must submit a corrected Form MMS-2014 to reflect actual costs, . . .	Burden hours included in hours above.		
206.172(e)(6)(ii)	You must pay and report on Form MMS-2014 additional royalties due . . .	Burden hours included in hours above.		
206.174(a)(4)(ii)	If the major portion value is higher, you must submit an amended Form MMS-2014 to MMS . . .	Burden hours included in hours above.		
206.178(d)(2)	You must report transportation allowances as a separate line item on Form MMS-2014.	Burden hours included in hours above.		
206.180(c)(2)	You must report gas processing allowances as a separate line item on the Form MMS-2014.	Burden hours included in hours above.		
206.353(d)(2); 206.354(d)(2).	Lessees must submit corrected Forms MMS-2014 to reflect adjustments to royalty payments . . .	Burden hours included in hours above.		
		Total	2,484,000	125,856

Industry submits Form MMS-2014 monthly, and each line reported on Form MMS-2014 is considered one reporting transaction. The actual number of payors reporting monthly and the actual number of reported transactions fluctuates due to company buyouts and mergers and because not all properties capable of producing have actual sales each month. MMS estimates

that approximately 207,000 lines will be submitted monthly or 2,484,000 lines annually by 1,600 payors.

We estimate that 7 minutes is needed to manually complete one line of Form MMS-2014 reporting. Average time includes data assembly, value and royalty calculations, and entering data on the form. The total time involved varies considerably, from a small company reporting only one or two leases to a large company reporting multiple leases.

For those companies with equipment enabling them to report using electronic media, the time to generate and submit the data is estimated to be 3 minutes per line. We have increased this estimate from the previous 2 minutes per line. Industry stated in their response to our previous Federal Register notice that the reporting burden for lines submitted electronically has been underestimated due to the time needed to analyze and allocate volumes, values, and deductions for the new sales type code. We understand industry's concern and defer to their judgement on the time needed to provide the sales type code data. However, we believe this sales type data is essential to the successful implementation of our reengineering goal of a new compliance strategy that ensures Federal and Indian mineral lease revenues are accurately and timely paid in the most cost-effective manner possible. Additionally, we continue to believe that industry will report fewer lines in the future because of the way allowance deductions will be reported.

The electronic reporting regulation (30 CFR 210.20) requires most reports to be submitted electronically. Because of this, we estimate that 1 percent of the 207,000 lines submitted each month will be prepared and submitted manually, a total of 2,070 lines (207,000 lines per month x 1 percent). The remaining 99 percent of lines will be submitted via electronic media or 204,930 lines per month. We estimate that the total annual burden for this information collection is 125,856 hours – 2,898 hours for manually prepared reports (2,070 lines x 7/60 x 12 months) and 122,958 hours (204,930 lines x 3/60 x 12 months) for electronically prepared reports. Using \$50 per hour as an estimate of industry cost, the total annual cost to the respondents is \$6,292,800 (125,856 hours x \$50).

13. What is the estimated reporting and recordkeeping "non-hour" cost burden of the collection of this information, excluding any costs identified in Items 12 and 14?

Companies experienced initial start-up costs for developing reporting systems for the reengineering conversion. Now that those reporting systems are complete, there are no additional "non-hour" cost burdens. Companies maintain an internet service provider, which is a customary and usual business practice.

14. What is the estimated annualized cost to the Federal Government?

The estimated annual cost to the Federal Government is \$1,167,900. All core business services of MRM rely on information gathered on this form. This estimate consists of the cost of directly handling the forms including:

- a. The cost of a vendor to handle electronic report submissions and electronic data

interchange (EDI) maintenance (annual costs+ EDI maintenance: \$105,000 + \$138,500 = \$243,500);

b. ADP support—data entry costs directly related to the processing of forms manually prepared and submitted by payors, including personnel and overhead costs (\$88,600);

c. Direct personnel costs of any necessary error correction on lines that do not clear edits and answering questions on how to report the required information (\$751,000);

d. Other than ADP costs such as mailroom processing, document imaging, and filing costs (\$84,800).

Total estimated annual cost to the Federal Government: \$1,167,900

15. Is the agency requesting any program changes or adjustments reported in items 13 and 14 of the Form OMB 83-I?

The current OMB inventory is 133,120 hours. We are reducing the burden by 7,264 hours to 125,856 hours as a result of the following actions:

- Adjustment of 7,264 hours to account for increased usage of the more efficient electronic reporting options

In Item 14 of Form OMB 83-I, we are decreasing the cost burden in OMB's Inventory by \$4.7 million. This cost decrease (Program Change) represents the elimination of estimated startup costs to use the new Form MMS-2014 that were included in the last submission. The revised form is now in use.

16. Are there plans for tabulation and publication of the results of the information collection?

The data collected will not be tabulated or published for statistical use.

17. Is the agency seeking approval to not display the expiration date?

No. We will display the expiration date of OMB's approval on Form MMS-2014.

18. Is the agency requesting exceptions to the certification statement in Item 19 of Form OMB 83-I?

To the extent the topics apply to this collection of information, we are not requesting exceptions to the "Certification of Paperwork Reduction Act Submissions."

B. Collections of Information Employing Statistical Methods

This section is not applicable. We will not employ statistical methods in this information collection.